

**COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY ON THE NOTICE OF
RULEMAKING 2002-07-01 TO ESTABLISH A TARGET RESERVE LEVEL FOR THE
CALIFORNIA POWER AUTHORITY INVESTMENT PLAN**

I.

INTRODUCTION

On July 24, 2002, the California Consumer Power and Conservation Financing Authority (“California Power Authority,” or “CPA”) issued the above-referenced Notice of Rulemaking “for the purpose of determining the targeted level of reserves needed to ensure sufficiency and stability of electric supply for the consumers of California” (Notice, p. 1). The Notice explains that the Legislature created the CPA to achieve, among other objectives, an adequate energy reserve capacity in California within five years (see Public Utilities Code Section 3310(d)). The CPA is instituting this Rulemaking to determine the definitive reserve margin that it should use to carry out its statutory mandate and guide its investment decisions (Notice, p. 5). San Diego Gas & Electric Company (“SDG&E”) hereby submits the following comments to guide the CPA’s adoption of a final Rulemaking in October on this significant and complicated topic.

II.

**THE CPA SHOULD FIRST FOCUS ON COORDINATING
WITH OTHER PROCEEDINGS ADDRESSING
RESERVE LEVELS AND RELATED ENERGY ISSUES**

As an initial matter, and as the CPA has itself recognized in its Notice, the issue of target reserve levels for electricity supply in California is being investigated by numerous other entities, including the California Public Utilities Commission (“CPUC”), the California Independent System Operator (“ISO”), and the Federal Energy Regulatory Commission (“FERC”). The CPA is participating in these proceedings, and it encourages these other agencies to participate as equals in this proceeding “to assure we take advantage of their information and judgment.”

SDG&E commends the CPA for urging this coordination, as it is essential to ensure that the CPA has the benefit of the most thorough and accurate data in making its investment decisions.

SDG&E therefore recommends that the CPA focus its near-term efforts on participating in those other proceedings that have already commenced.

By acting prematurely and before these other proceedings have been completed, the CPA risks imposing additional costs on the State and losing the benefit of the analysis already underway to address California and Western power market issues, including reserve levels. If the CPA were to adopt an investment strategy based on a reserve percentage decision that is founded upon incomplete data and analysis, and which may be contradicted by the outcomes in other proceedings, the result will be policy confusion and potentially costly mistakes (such as either too much or too little capacity reserves) that California can ill afford. Moreover, the CPA's moving forward on a parallel proceeding at this time will not result in an earlier resolution of this matter because any CPA commitments must await the results of the other proceedings.

SDG&E would note in particular that FERC's Standard Market Design Notice of Proposed Rulemaking ("NOPR") provides an overall framework that fits well with the CPA's planning and investment horizon of five years. The FERC proceeding also provides for the formation of State Advisory Committees, which presents a meaningful opportunity for the CPA to address the reserve level issue, as well as other matters of significance. SDG&E understands that the CPA is participating in the CPUC's procurement rulemaking (R.01-10-024), which is appropriate, as the CPUC will be considering the target reserve level issue. The CPA should also actively participate in the ISO's market design efforts to identify, for example, the entities that have proposed new generation to satisfy capacity requirements, and the CPA can possibly assist

with funding for those projects. Similar opportunities will likely be found with the California Energy Commission's efforts to establish and implement energy policy in California.

In sum, the most valuable contribution that can be made at this time by the CPA on the target reserve level and related energy issues is to apply its expertise in these other proceedings. In that way, other parties will also be able to devote their resources to addressing this issue in a more efficient and effective manner. Once final outcomes have been determined in these other cases, the CPA will be in a strong position to fulfill its mission. To the extent the CPA continues with its own proceeding on a parallel track, however, SDG&E urges the CPA to consider the following issues in adopting a final Rulemaking.

III.

THE INITIAL LIST OF ISSUES TO BE CONSIDERED DOES NOT PROVIDE AN ADEQUATE SUBSTANTIVE BASIS FOR THE RULEMAKING

The Notice sets forth an initial list of five data points that it believes should be considered in forming a recommendation as to an appropriate reserve level for the State. On the first issue, in asking whether “the historic reserve level reflects the greater reliability risks of the present and future,” apparently the CPA questions whether the 15% target that is mentioned in the Notice and that is based on historical practices will be adequate in the future. SDG&E notes that this assessment depends on a thorough and realistic analysis of the ability of resources to meet loads. Until this analysis is performed to reflect current and likely future conditions, no conclusions can or should be drawn regarding target reserve levels.

The second point regarding the possible number of plants that will actually come on line in the future does not clearly link with the CPA's objective of setting the correct reserve margin. Consideration of these issues must not confuse the distinction between planning for resources to

meet load, and planning for added resources to provide a reserve margin for unanticipated conditions. The CPA should not attempt to use a reserve margin to address overall supply/demand balance. Similarly, with regard to the third and fourth points on the impacts of conservation and rate increases, these questions are more properly related to determining demand and supply balance issues and developing load forecasts. Those are ingredients of an overall resource plan, which will drive future generation development in the State. They are not integral to conducting an investigation of a target reserve level.

Finally, the fifth point highlights the ongoing FERC proceeding discussed above. As SDG&E has stated, the CPA will have a far better foundation for any future investments it might make if it focuses on participation in the FERC proceeding, and incorporates those results as appropriate after that matter concludes.

IV.

ADDITIONAL PROBLEMS EXIST IN THE NOTICE REGARDING THE APPROPRIATE PURPOSE AND SCOPE OF A TARGET RESERVE RULEMAKING

Among the myriad issues mentioned in the Notice, the CPA discusses the current standards for electric reliability promulgated by the North American Electric Reliability Council (“NERC”) and the Western Electric Coordinating Council (“WECC”). The CPA states that the primary responsibility of ensuring that utilities have sufficient reserves, however, comes from the obligation to serve, which is created by the State. It is not clear from the Notice how the CPA intends to incorporate the NERC and WECC standards into the Rulemaking, but as an initial matter it is important to point out that the NERC standards have in fact been mandatory for at least two years. Similarly, WECC has a Reliability Management System (“RMS”) that includes financial penalties for non-compliance with WECC standards. The ISO is a signatory to the

RMS, so SDG&E also has to meet the WECC standards as a participating transmission owner with the ISO.

Also of concern to SDG&E is the statement in the Notice that the level of reserves “needed to prevent blackouts and maintain a stable market is a critical piece of information” (Notice, p. 5). SDG&E recommends addressing this issue in a manner that recognizes that the purpose of reserves should be focused on achieving reliability rather than as a tool to achieve market stability. Otherwise, a situation will be created that could lead to excessive power supplies in the State that create overall increased costs to consumers.

Finally, as to the list of definitions that is attached to the Notice, SDG&E recommends that the CPA adopt and use the comparable terms that are defined by NERC. This coordination will achieve consistency among the various entities and proceedings that are implicated by the CPA’s Rulemaking. There are discrepancies in the Notice’s attached list as compared to NERC’s commonly accepted terminology, and these mismatches will merely create confusion and potentially lead to costly errors in the future. In any event, if the CPA proceeds with adopting its own list of definitions, they should be the subject of a thorough technical workshop to ensure they are accurately drawn. The comment process on the draft Rulemaking is inadequate to address the level of technical detail that would need to be considered.

V.

CONCLUSION

SDG&E appreciates the opportunity to comment on the CPA’s notice of its target reserve level Rulemaking, and it agrees that this issue is of key importance to the State. The CPA’s greatest contribution at this time would be to first focus its expertise on effective participation in the other ongoing proceedings that are addressing this and related issues. In that way, the CPA

will avoid duplication and will have the most robust and accurate information to proceed with its objective to ensure a sufficient electric supply for California electricity consumers in the future.

Dated this 30th day of August, 2002, at Los Angeles, California.

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